

HOUSE BILL REPORT

HB 1802

As Reported by House Committee On:
Economic Development, Agriculture & Trade

Title: An act relating to property tax exemptions for nonprofit organizations for small business incubators which assist in the creation and expansion of innovative small commercial enterprises.

Brief Description: Providing a property tax exemption for nonprofits that assist small businesses.

Sponsors: Representatives Kilmer, Walsh, Pettigrew, Strow, Wallace, Kenney, Clibborn, Hankins, McCoy, Haler, Blake, McCune, Linville, P. Sullivan, Grant, Kessler, Simpson, Morrell, Williams, O'Brien, Lantz, Eickmeyer, Chase, Haigh, Hasegawa, Hudgins and Moeller.

Brief History:

Committee Activity:

Economic Development, Agriculture & Trade: 2/16/05, 2/28/05 [DPS].

Brief Summary of Substitute Bill

- Provides a state property tax exemption for real and personal property used by a qualified nonprofit organization located in a rural county, a county with a community empowerment zone (CEZ) or in a CEZ so long as the property is used to assist startup and expanding businesses.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT, AGRICULTURE & TRADE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 19 members: Representatives Linville, Chair; Pettigrew, Vice Chair; Skinner, Assistant Ranking Minority Member; Blake, Chase, Clibborn, Dunn, Grant, Haler, Holmquist, Kenney, Kilmer, McCoy, Morrell, Newhouse, Quall, Strow, P. Sullivan and Wallace.

Minority Report: Do not pass. Signed by 4 members: Representatives Kristiansen, Ranking Minority Member; Buri, Condotta and Kretz.

Staff: Tracey Taylor (786-7196).

Background:

Property taxes apply to the assessed value of all taxable property, which includes all real and personal property located within the state, unless specifically exempted. Real property includes land, structures and certain equipment that is affixed to the structure. The assessed value of real property is determined by the county assessor. Personal property includes machinery, supplies, certain utility property and items which are generally moveable. Owners of personal property list the items, their acquisition cost and the year acquired with the county assessor each year. The assessor then determines the current assessed value.

Property tax rates consist of the annual levy rates applied to the assessed value of taxable property by the various taxing districts, including the state and various local jurisdictions which have levy authority under state law. As of 2004, there were 1,769 taxing districts throughout the state. A taxing district's rate must be applied uniformly throughout the district. However, because many of the jurisdictions overlap, there are about 3,150 code areas in which a particular combination of levy rates may apply.

Property tax exemptions are allowed under certain conditions. They include publicly owned property, property owned by nonprofit organizations, household goods and personal effects.

Summary of Substitute Bill:

A state tax exemption is provided for real and personal property owned or used by a qualified nonprofit organization, if the property is used to assist start-up and expanding businesses. The property must also be used to provide the shared use of equipment and work areas as well as the daily technical resources and management support services that enable entrepreneurs to transform private activities into successful businesses. In order to qualify, the property must be located in a rural county, a county with a community empowerment zone (CEZ) or in a CEZ.

The qualified nonprofit organization must be organized and conducted for nonsectarian purposes and be qualified for exemption under section 501(c)(3) of the federal internal revenue code. The nonprofit organization must also be governed by a board of directors consisting of at least five volunteer members.

If the property ceases to be used by the nonprofit for the assistance of start-up and expanding businesses, the county treasurer is authorized to collect all taxes which would have been paid had the property not been exempt during the previous three years or the life of the exemption if less, plus the interest calculated based on the delinquent property tax rate.

The state levy shall be reduced to prevent the remaining taxpayers from experiencing a higher tax rate as a result of this exemption.

The tax exemption will be applied to taxes levied for collection beginning in 2005.

In 2010, any nonprofit organization claiming this exemption must report to the Department of Revenue (DOR) the number of businesses served by the nonprofit organization and the types of services provided. Failure to submit the report will render a nonprofit organization

ineligible for the exemption. The DOR shall compile this information and share it with the appropriate committees of the Legislature.

The exemption expires in 2015.

Substitute Bill Compared to Original Bill:

The substitute limits the property tax exemption to state property taxes only. References to "economically distressed persons" is replaced with "economically distressed areas," which is defined as a rural county, a county with a community empowerment zone or a community empowerment zone. Definitions of "emerging business" and "startup business" are also added. Finally, the exemption's availability is delayed until 2006.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This bill allows nonprofit SBIs to recapture the money that they would pay for property taxes and build or expand facilities or expand services for new businesses. Business owners may understand their area of business, but the surrounding issues can be daunting. A SBI allows in-home businesses to move into a professional space, network with other business owners; and get the support they need to succeed.

Testimony Against: None.

Persons Testifying: Representative Kilmer, prime sponsor; and Tim Strege, William Factory Small Business Incubator.

Persons Signed In To Testify But Not Testifying: None.